

STATE PLAN TITLE XIX OF THE SOCIAL SECURITY ACT
MEDICAL ASSISTANCE PROGRAM

State Kentucky

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Methods and Standards for Establishing Payment Rates--
Inpatient Hospital Care

- (1) The State Agency will pay for inpatient hospital services provided to eligible recipients of medical assistance through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated hospitals to provide services in conformity with applicable state and federal laws, regulations, and quality and safety standards.
- (2) The methods and standards used by the state agency are specified in Exhibit A of this attachment. For any reimbursement issue or area not specified in Exhibit A, the retrospective Medicare standards and principles shall apply, with the Medicare inpatient routine nursing salary cost differential paid under 24 CFR 405.430 excluded.
- (3) The state shall comply with the requirements shown in 42 CFR 447.250 through 447.280.
- (4) For medically necessary hospital inpatient services provided by in-state hospitals to infants under the age of one (1) with exceptionally high costs or long lengths of stay (defined as being those costs and days of stay which for newborns are after thirty (30) days beyond the date of discharge for the mother of the child and for all other infants are after thirty (30) days from the date of admission), the payment rate shall be set at 110 percent of the per diem payment rate, without regard to length of stay or number of admissions of the infants.
- (5) Use of Upper Limits for In-State Hospitals
 - A. For acute care hospitals except hospitals with 100 beds or less, an upper limit will be established on all costs (except Medicaid capital cost) at the weighted median per diem cost for hospitals in each peer group, using the most recent Medicaid cost report available as of December 1 of each year. For acute care hospitals with 100 beds or less, the upper limit on all costs (except Medicaid capital cost) shall be established at 110 percent of the weighted median per diem for hospitals in the peer group, using the most recent Medicaid cost report available as of December 1 of each year. For mental hospitals, an upper limit will be established on all costs (except Medicaid capital cost) at the weighted median per diem cost for hospitals in the array. A mental hospital designated by the cabinet as a primary referral and services resource for children in the custody of the cabinet shall be exempt from the upper limit for the array and shall be paid at actual projected cost with no year end settlement to actual cost; the projected cost may be adjusted for usual cost of living increases using the Data Resources, Incorporated index. Upon being set, the

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arrays and upper limits will not be altered due to revisions or corrections of data; however the arrays or upper limits may be changed as a result of changes of agency policy. Rehabilitation hospitals and acute care hospitals considered to be primarily rehabilitative in nature will not be peer grouped or arrayed; these hospitals will not be subject to usual peer group upper limits but will receive reimbursement at full reasonable cost.

- B. The following upper limits and payment principles shall apply to disproportionate share hospitals as defined in section (6) and attachment 4.19-A, Exhibit A.
1. Acute care hospitals with Medicaid utilization of twenty (20) percent or higher, and hospitals having twenty-five (25) percent or more nursing days resulting from Medicaid covered deliveries as compared to the total number of paid Medicaid days, shall have an upper limit set at 120 percent of the weighted median per diem cost for hospitals in the array. In addition to the per diem amount computed in this manner, the hospitals shall be paid (as appropriate) additional amounts for services to children under age six (6) (as shown in section (6)(b)(2)). The hospitals shall also be paid disproportionate share hospital payments as appropriate.
 2. Designated state teaching hospitals and major affiliated pediatric teaching hospitals (i.e., those affiliated with or a part of the University of Kentucky and the University of Louisville) shall have an upper limit set at 126 percent of the weighted median per diem cost for all other hospitals of comparable size (401 beds and up). The pediatric teaching hospitals shall also be paid, in addition to the facilities' base rate, an amount which is equal to two (2) percent of the base for each one (1) percent of Medicaid occupancy but this amount shall not exceed the prospective reasonably determined uncompensated Medicaid cost to the facility. In addition to the per diem amount computed using the limits specified in this paragraph, the hospitals shall be paid (as appropriate) additional amounts for services to children under age six (6) (as shown in section (6)(b)(2)). The hospitals shall also be paid disproportionate share hospital payments as appropriate.

3. Mental hospitals with Medicaid utilization of thirty-five (35) percent or higher shall have an upper limit set at 135 percent of the weighted median per diem cost for hospitals in the array. The hospital shall also be entitled to disproportionate share hospital payments as appropriate.

4. All other disproportionate share acute care hospitals shall have their upper limit set at the weighed median per diem of the cost for hospitals in the array. In addition to the per diem amount computed in this manner, the hospitals shall be paid (as appropriate) additional amounts for services to children under age six (6) [as shown in section (6)(b)(2)]. The hospitals shall also be paid disproportionate share hospital payments as appropriate.

(6) Provisions Specific to Disproportionate Share Hospitals

A. Disproportionate share hospitals are those hospitals meeting the criteria specified in Section 1923 (b) and (d) of the Social Security Act and those hospitals which may not meet such criteria but meet the criteria specified in Section 1923 (d) of the Social Security Act and meet this additional criteria:

1. Acute care hospitals with Medicaid utilization of twenty (20) percent or higher and mental hospitals with Medicaid utilization of thirty-five (35) percent or higher;
2. Hospitals which are designated state teaching hospitals;
3. Hospitals which are designated major pediatric teaching hospitals;
4. Hospitals having twenty-five (25) percent or more nursery days resulting from Medicaid covered deliveries as compared to the total number of paid Medicaid days; or
5. Hospitals not meeting the criteria specified in paragraphs 1 through 4, but with Medicaid utilization of one (1) percent or higher.

- B. For the period ending June 30, 1994 each disproportionate share hospital shall be paid a minimum disproportionate share payment amount of the type of hospital plus any earned adjustment to which the hospital is entitled. The hospital types, minimum payment amounts, and earned adjustments shall be as follows and shall be in effect only through the period ending June 30, 1994:
1. Type I: These hospitals shall be those acute care and psychiatric instate hospitals serving a federally designated medically underserved area, a federally designated health manpower shortage area, or a primary care physician shortage area designed under the rural Kentucky medical scholarship fund, when the hospital has fifty (50) beds or less. Minimum amount: Ninety-five (95) dollars per Medicaid day.
 2. Type II: These hospitals shall be described in the same manner as Type I, except these hospitals have fifty-one (51) beds to 100 beds. Minimum amount: seventy (70) dollars per Medicaid day.
 3. Type III: These hospital shall be described in the same manner as Type I except these hospitals have 101 beds to 200 beds and include rehabilitation hospitals. Minimum amount: fifty-five (55) dollars per Medicaid day.
 4. Type IV: These hospitals shall be described in the same manner as Type I except these hospitals have 201 or more beds and include rehabilitation hospitals. Minimum amount: forty-five (45) dollars per Medicaid day.
 5. Type V: All acute care and psychiatric in-state hospitals with 100 beds and under except those described as Type I or II. Minimum amount: forty-five (45) dollars per Medicaid day.
 6. Type VI: All acute care, rehabilitation, and psychiatric instate hospitals with 101 to 200 beds except those that are Type III. Minimum amount: thirty-five (35) dollars per Medicaid day.
 7. Type VII These hospitals shall be described in the same manner as Type I, except the type shall be limited to rehabilitation hospitals. Minimum amount: ninety-five (95) dollars per Medicaid day.
 8. Type VIII: These hospitals shall be described in the same manner as Type II, except the type shall be limited to rehabilitation hospitals. Minimum amount: seventy (70) dollars per Medicaid day.
 9. Type IX: All rehabilitation hospitals, with 100 beds and under except those described as Type VII or VIII. Minimum amount: forty-five (45) dollars per Medicaid day.

10. Type X: All other in-state hospitals including psychiatric hospitals. Minimum amount: ten (10) dollars per Medicaid day.
 11. Type XI: All out-of-state hospitals. Minimum amount: one (1) dollar per Medicaid day.
- C. For the period ending June 30, 1994, each Type I through Type X hospital shall have the opportunity for an earned payment adjustment based on the provision of indigent care (i.e., care provided to Medicaid recipients beyond the Medicaid covered days or to individuals or families with income under the poverty level). The earned adjustment shall equal ten (10) dollars for each indigent day of care provided plus an amount equal to the cost of the indigent care (at Medicaid rates) provided by the hospital for which there has been no direct or indirect payment (i.e., where the cost of the care has not been paid or cost-shifted to other payors). A hospital shall be presumed to have received payment for indigent care to the extent that other patient revenues exceed other patient costs, and to the extent that direct or other indirect payments are made to the hospital for the indigent care.
- D. Each Type XI hospital shall qualify for an earned adjustment which is equal to ten (10) cents for each one (1) percent of Medicaid occupancy above one (1) standard deviation.
- E. Effective with regard to medically necessary hospital inpatient services provided by all Kentucky disproportionate share hospitals on or after July 1, 1991, to children under the age of six (6) with exceptionally high costs or long lengths of stay (defined as being those costs and days of stay which for newborns are after thirty (30) days beyond the date of discharge for the mother of the child and for all other infants are after thirty (30) days from the date of admission), the payment rate shall be set at 110 percent of the per diem payment rate, without regard to length of stay or number of admissions of the children.
- F. In compliance with section 1923(c)(3)(B) of the Social Security Act, the following policy shall be effective on March 1, 1994.

Any acute care disproportionate share hospital with 100 beds or less (Types I, II, and V) may qualify for an earned adjustment to its minimum payment amount. The aggregate (total) amount available to a facility to be earned shall be determined using statistical data from the period of July 1, 1993 through February 28, 1994, with the determination made in the following manner: multiply the facility's rate for April 1, 1993, by the number of Medicaid days for the period of July 1, 1993 through February 28, 1994; compare that amount to the amount the facility was correctly paid for the period of July 1, 1993 through February 28, 1994, for Medicaid days;

if the amount the facility was paid was less than the amount the facility would have been paid using the April 1, 1993, rate the facility may earn the difference (the aggregate) so long as the difference was not in excess of the actual cost to the facility of providing Medicaid services. The adjustment may be earned by participation in the Medicaid program, payable at the rate of one-fourth (1/4) of the aggregate total for each month of participation beginning with March 1994, and ending with June 1994.

- G. Any acute care disproportionate share hospital of 100 beds or less shall receive a minimum disproportionate share hospital payment of \$200,000 for the period of March 1, 1994 through June 30, 1994. This payment shall be made in two (2) equal installments of \$100,000 each with the first payment amount to be paid on or before March 1, 1994, and the second payment amount to be paid on or before June 30, 1994.

In compliance with Section 1923 (c) (3) (B) of the Social Security Act, effective June 15, 1994 any psychiatric disproportionate share hospital of 100 beds or less shall receive an adjustment to the fiscal year 1994 payment that consist of a base payment of \$200,000 and an additional amount for each indigent day payable at the Medicaid rate plus \$10, as specified in section C.

- H. Only in fiscal year 1994, an adjustment to the state fiscal year 1994 payment will be made to all qualifying hospitals which shall be the difference between payments made by using a distribution method based on each hospital's proportion of the cost of inpatient indigent care payable at the Medicaid rate plus \$10 and each hospital's proportion of the total cost of indigent care, not to exceed available funds.

- I. Effective July 1, 1994, the following policy shall be in effect:

1. Type I hospitals shall be those in-state disproportionate share hospitals participating in the Medicaid program.
2. Type II hospitals shall be those out-of-state disproportionate share hospitals participating in the Medicaid program.
3. Disproportionate share payments to any hospital shall not exceed uncompensated cost of care as defined in OBRA '93. Subject to this limitation, calculation of payments to Type I hospitals shall be made as follows:

The funds shall be distributed to each qualifying hospital according to its proportion to the total funds available for the year. The proportions shall be calculated by dividing the cost of each hospital's indigent care by the total cost of indigent care for all qualifying hospitals.

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4. Type II hospitals shall qualify for a payment of \$1.00 per Medicaid day.
- J. For the period beginning December 31, 1994, subject to the limitations in OBRA '93, disproportionate share hospital payments shall be made according to the following:
1. A disproportionate share payment shall be based on the type of hospital. There shall be five types of hospitals: (a) Type I hospitals shall be those in-state hospitals with 100 beds or less; (b) Type II hospitals shall be those in-state hospitals with 101 beds or more, except for those hospitals that qualify as Type III or Type IV' (c) Type III hospitals shall be those in-state hospitals that have been designated as state university teaching hospitals; (d) Type IV hospitals shall be state-owned psychiatric hospitals; and (e) Type V hospitals shall be out-of-state disproportionate share hospitals.
 2. For Type I and Type II hospitals payment will be based upon available funds. The funds shall be distributed to each qualifying hospital according to its proportion to the total funds available for the year. The proportions shall be calculated by dividing the cost of each hospital's indigent care by the total cost of indigent care for all qualifying hospitals. In addition to the amount described based upon available funds, any Type I hospital shall receive a base disproportionate share payment of \$200,000 for the period of December 31, 1994 through June 30, 1995.
 3. For Type III and Type IV hospitals, the payment shall be equal to the sum of the costs of providing services to Medicaid patients, less the amount paid under nondisproportionate share provisions and the costs of services to uninsured patients, less any payments made.
 4. For Type V hospitals, payment shall be one (1) dollar per Medicaid day plus an additional amount equal to ten (10) cents for each one (1) percent of Medicaid occupancy above one (1) standard deviation.
- K. During state fiscal year 1995, the limit in this section shall apply only to hospitals that have been designated as a "High Disproportionate Share Hospital". To qualify as a "High DSH", a hospital must:
1. Be a public hospital, and
 2. Meet one of the following two categories:
 - a. The hospital must have Medicaid utilization at least one standard deviation above the mean Medicaid utilization rate in the State; or

- b. The hospital must have the greatest number of Medicaid inpatient days of any hospital in the State, in the previous fiscal year.

During this year such a hospital, shall be allowed a limit that is 200% of the limit described in OBRA '93.

- L. Effective February 20, 1995, to be classified as a Type III hospital, a university teaching hospital must make a request to the Department for Medicaid Services for Type III status. Any hospital approved as a Type III hospital shall agree as part of its request to forgo any local or state governmental contributions for charity care and to provide up to 100 percent of the state matching funds necessary to secure federal financial participation through an intergovernmental transfer.
- M. To qualify for the base payment of \$200,000 as outlined in J. 2., hospitals must submit to the Cabinet a written commitment and a description of a planning approach by the hospital to work with local health department(s) and other appropriate providers to provide medical services to the indigent. This plan shall be based on community health needs assessment using a methodology approved by the Cabinet. This plan shall be submitted for review by the Cabinet and the General Assembly's Interim Committee on Health and Welfare no later than June 30, 1995.
- N. Type I and Type III hospitals shall submit, by the 15th of each month, reports to the Department for Medicaid Services and the Legislative Research Commission. These reports shall indicate the number of indigent patients treated for the prior month and the costs associated with their care.

(7) Payments to Participating out-of-state Hospitals

A. Effective with regard to services provided on or after July 1, 1990, participating out-of-state hospitals shall be reimbursed for covered inpatient services rendered eligible Kentucky Medicaid recipients at the rate of seventy-five (75) percent of usual and customary charges, up to the in-state per diem limit for a comparable size hospital, except as specified in (b).

B. Effective with regard to medically necessary hospital inpatient services provided on or after July 1, 1991, to infants under the age of one (1), and for children under the age of six (6) in disproportionate share hospitals (determined in the same manner as for in-state hospitals except that out-of-state hospitals are not included in facility arrays) for days of stay which for newborns are after thirty (30) days beyond the date of discharge for the mother of the child and for all other children are after thirty days from the date of admission, participating out-of-state hospitals shall be paid at the rate of eighty-five (85) percent of the usual and customary actual billed charges up to 110 percent of the per diem upper limit for the in-state peer group for comparable sized hospitals in recognition of exceptionally high costs and lengths of stay related to infants under the age of one (1), and children under age six (6) without regard to length of stay or number of admissions of the infants children.

C. Professional costs (i.e., physician fees) for all covered days of stay shall be paid at seventy-five (75) percent of the usual and customary charges of the provider.

Special Payment Rates and Upper Limits Period

- (8) Provider taxes shall be considered allowable cost. For the rate period beginning July 1, 1993, the allowable cost of the tax shall be added to the hospital rate with no offsets and without regard for usual upper limits. For subsequent rate periods the cost (excluding, effective March 1, 1994, any per diem rate adjustment for the prior rate period relating to provider taxes) shall be shown in the appropriate cost report with adjustment as necessary to reflect an annual amount.
- (9) Allowable cost growth from the prior rate base year to the new rate base year shall be limited to not more than one and one-half (1 1/2) times the Data Resources, Inc. inflation amount for the same period; limits shall be applied by component (capital and operating cost only); cost growth beyond the allowable amounts shall be considered unallowable cost for rate setting purposes.

TN No 95-05

Supersedes

TN ~~95-01~~

94.21

4/21/00

Approval Date 3/9/00

Effective Date 5-15-95

(10) Public Process for Determining Rates for Inpatient Hospitals

The State has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

TN No. 98-04

Supersedes

TN No. NoneApproval Date JUN 17 1998Effective Date 4/1/98